

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

March 23, 2001

8:07 a.m.

MEMBERS PRESENT

Representative Scott Ogan, Chair
Representative Hugh Fate, Vice Chair
Representative Fred Dyson
Representative Mike Chenault
Representative Vic Kohring
Representative Gretchen Guess
Representative Reggie Joule

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CONFIRMATION HEARING

Alaska Oil and Gas Conservation Commission

Julie Heusser - Anchorage

- CONFIRMATION ADVANCED

PREVIOUS ACTION

No previous action to record

WITNESS REGISTER

JULIE HEUSSER, Appointee
to the Alaska Oil and Gas Conservation Commission (AOGCC)
333 West Seventh Avenue, Suite 100
Anchorage, Alaska 99501-3539

POSITION STATEMENT: Testified as appointee to the AOGCC and answered questions relating to her appointment and to the AOGCC in general.

ACTION NARRATIVE

TAPE 01-19, SIDE A

Number 0001

CHAIR SCOTT OGAN called the House Special Committee on Oil and Gas meeting to order at 8:07 a.m. Members present at the call to order were Representatives Ogan, Fate, Dyson, Kohring, and Guess. Representatives Chenault and Joule arrived as the meeting was in progress.

CONFIRMATION HEARING

Alaska Oil and Gas Conservation Commission

Number 0042

CHAIR OGAN announced that the committee would consider the confirmation of Julie Heusser to the Alaska Oil and Gas Conservation Commission (AOGCC). He asked Ms. Heusser to tell members why she wished to serve on the AOGCC.

Number 0088

JULIE HEUSSER, Appointee to the Alaska Oil and Gas Conservation Commission, answered that she is an Alaskan and just happens to be a petroleum engineer. She offered some personal history, noting that her grandparents came to Alaska in 1941 and that she was born and raised in Anchorage. When deciding what to study, she said one consideration was that it allow her to return to Alaska to live. She emphasized that Alaska is her home, and that she is committed to the state and to protecting the oil and gas resources for the citizens of Alaska.

MS. HEUSSER, in response to another question relating to the higher pay in private industry, said the oil and gas industry is booming, and there is an active search for experienced engineers, geologists, and geophysicists; industry pays accordingly. She said working for the industry was an option for her, but Alaska is her home and opportunities for employment [in private industry] would have taken her elsewhere. Therefore, she has chosen to work at the AOGCC as a regulator.

CHAIR OGAN expressed appreciation for Ms. Heusser's willingness to serve. He said he would like to thank the governor, who had a hard time a few years ago finding a petroleum engineer.

Number 0406

REPRESENTATIVE FATE observed from Ms. Heusser's resume that she had worked in the corporate world previously, but had switched to work for the AOGCC; he expressed appreciation for that.

MS. HEUSSER noted that she had been involved just marginally in the regulatory end of things when working for the industry. In response to a further question from Chair Ogan, she explained that the AOGCC, when fully staffed, would have two petroleum engineers, two reservoir engineers, and two geologists; she sees her role as applying her "real-life, real-world experience" to decisions made by the AOGCC, which adds a "practical factor."

Number 0555

CHAIR OGAN asked Ms. Heusser to describe her responsibilities. He characterized the AOGCC as the "police force ... of the oil patch." Noting that the AOGCC has quasi-judicial powers, he asked how those are exercised. He also asked what kinds of scenarios arise regarding competing producers who require that regulatory oversight.

MS. HEUSSER replied that she also has heard the AOGCC referred to as "the police of the oil industry." The AOGCC provides oversight of both activities and proposed activities, first getting involved, for example, when an operator wishes to drill a well; the operator provides the AOGCC with a permit to drill, which the AOGCC reviews carefully, not only from the perspective of whether the operator is drilling on the operator's lease and not someone else's, but also from the standpoint of whether the design protects sources of drinking water, is mechanically competent, and will do the job that it is intended to do. Ms. Heusser said the AOGCC regularly interacts with operators, particularly new operators in the state, and is able to effectively influence how their wells are drilled. She noted that the AOGCC provides all sorts of input, from planning to remedial operations.

Number 0710

CHAIR OGAN suggested there may be different royalty scenarios for leases within fairly close proximity or even within the same pool. He asked whether the AOGCC ensures that the expensive oil doesn't somehow migrate into the less-expensive oil well.

MS. HEUSSER answered that if adjoining leases have different property owners on either side of the lease line, most probably a unit will have been formed. The purpose of the unit is to

efficiently, effectively, and economically recover all of the hydrocarbons that are part of that oil pool or gas pool that is covered by the leases. Basically, it is done on a percentage basis. Drilling of one well potentially could drain oil from surrounding leases, and that is factored in. All producers get their money, and it is recognized upfront how much oil a particular lease holds; the owner of a lease that holds less would receive a smaller percentage of the revenue from the oil that is produced out of that unit.

MS. HEUSSER, in response to a question by Chair Ogan, affirmed that as a quasi-judicial agency, the AOGCC has the ability to adjudicate that. She clarified that in most situations, however, operators that own leases will voluntarily form a unit and agree to the costs and the percentage of revenues for each operator; only when the operators cannot resolve that do they come to the AOGCC, which then will listen to both sides, apply good engineering principles, and make a decision.

Number 0837

CHAIR OGAN noted that the full committee was now present. He then announced that having met with Ms. Heusser, he was impressed with both her credentials and her Alaskan spirit. He concurred with her appointment.

Number 0949

REPRESENTATIVE KOHRING referred to the AOGCC's role of policing the oil industry in terms of making sure that the royalties from the North Slope are accurate. He asked Ms. Heusser whether there are any problems in that regard now.

MS. HEUSSER explained that one responsibility of the AOGCC is routine "witnessing of meter-proving" to ensure that the oil being metered is being metered accurately, and that the volumes reported by the operators are accurate, which equates immediately into state revenue. In response to a further question regarding whether Ms. Heusser believes the volumes from the North Slope are accurate, Ms. Heusser said yes, to the best of her knowledge at this time.

Number 1069

REPRESENTATIVE DYSON asked whether, with a single operator in the field now, Ms. Heusser sees any increased opportunity for that operator to fix the books and cheat the state, either in

regard to the royalty share or in regard to the costs of transportation, production, and so forth.

MS. HEUSSER returned to the function of meter-proving; she said the AOGCC ensures that what goes into Pump Station 1 of the Trans-Alaska Pipeline System is accurately metered. The AOGCC also meters volumes at the Milne Point field, the Endicott field, and others. If those volumes are accurately measured, Ms. Heusser said, she isn't the person who can address whether a producer can cheat the state out of revenue, which is based upon the volume of oil. If there is another means [of cheating], Ms. Heusser added, she isn't aware of it. As for transportation costs, those are outside of her area of expertise and get back to the price at the wellhead; by contrast, her own area is the "down-hole" and the surface metering.

Number 1229

REPRESENTATIVE KOHRING recalled that years ago, when first in office, he was on the budget subcommittee for the Department of Administration; under its jurisdiction was the AOGCC. He mentioned that there were concerns then about funding for the AOGCC, including salaries, staffing, and so forth, which was inadequate at the time; he'd attempted to put an additional \$50,000 in, he said, which the administration at the time disagreed with. He asked Ms. Heusser whether she believes the AOGCC's staffing is adequate and whether its staff can do adequate oversight, given its current budget.

MS. HEUSSER asked Representative Kohring what he feels is an adequate level of oversight. She then noted that the AOGCC has six engineers and geologists who look over all of the state's oil and gas fields, whereas operators have twice that amount of staff to look after one field. She added that the AOGCC does oversight and acts "in an audit function."

MS. HEUSSER said for the time being the funding is adequate and a bit more secure, being based upon program receipts and funded through an accounting mechanism by the operators that produce and inject oil and gas. A separate issue is that salaries offered by the AOGCC for technical staff are not competitive with salaries offered in the industry. "We feel like we're doing a good job of looking over all of the oil and gas activities in the state of Alaska," she concluded.

Number 1396

MS. HEUSSER, in response to a question by Representative Joule, specified that the AOGCC has two petroleum engineer positions, one filled; two reservoir engineer positions, one filled; and two geologist positions, both filled.

REPRESENTATIVE JOULE noted that in a previous hearing the committee heard that the Department of Natural Resources (DNR) receives from the producers information including three-dimensional (3-D) seismic information; he also noted that the state would have to pay to have that interpreted, but doesn't do so. He asked: If the state isn't willing to pay to get the information from the industry that would reveal what the 3-D information says, would it be helpful to have someone [at the AOGCC] who can read that information as it is received from the oil companies? He specified that he wasn't talking about interpreting it directly and paying for that interpretation, but was talking about somebody who could look at the information that the oil companies have, at their facilities, and interpret it there.

MS. HEUSSER answered that she is of the philosophy that information is power. Being able to understand and interpret seismic data would be of great value to the state; it would help when it comes to lease sales and would help regarding whether the AOGCC believes bids being received are reasonable. As to whether that position would fall under the DNR or the AOGCC, Ms. Heusser said she had no opinion.

Number 1539

MS. HEUSSER, in response to a question by Chair Ogan, said reading 3-D seismic information isn't part of her own background. It is an art; a geophysicist who specializes in interpreting seismic data, whether two-dimensional or three-dimensional, would do that. She further responded that the AOGCC has people who are competent in assessing interpreted geophysical information, who can "spot gas with the best of them and ... identify structures off of seismic information"; therefore, the AOGCC has that expertise to a limited extent.

Number 1601

CHAIR OGAN asked whether the AOGCC exercises that ability much, and whether the AOGCC has the resources to get the information from the oil companies. He recalled that a representative from the [DNR's] Division of Oil and Gas had talked about the lack of [monetary] resources to get all of the 3-D seismic data, which

the division could get for the price of reproducing it. He also asked whether there is an active program now.

MS. HEUSSER answered that within the AOGCC, collecting and interpreting seismic data is not a routine function. However, the AOGCC had used it recently in order to help the Department of Environmental Conservation assess a spill-contingency plan. It requires fairly technical expertise and a "monstrous" computer system, and the AOGCC isn't set up to do it; Ms. Heusser said she cannot speak for the DNR, but suspects that the DNR isn't set up to do that, either. It would be an investment in not only personnel, but perhaps also in some computer hardware and software, in order to do the job adequately.

Number 1701

REPRESENTATIVE FATE noted that Ms. Heusser, in a discussion prior to the meeting, had said how busy the AOGCC is. He asked, with these unfilled positions, whether the AOGCC is keeping up. He pointed out that there would be an added workload because of gas exploration.

MS. HEUSSER answered that the AOGCC has a great staff; people work long hours, including late at night and on weekends, and are scrambling to keep up with the permits to drill and the sundry applications that need the AOGCC's review in order for operators to continue to do business. If things get even busier, then the AOGCC definitely will be scrambling. She noted that the AOGCC has had some difficulty in filling its open engineering positions. The AOGCC wants experienced people; although the staff is well compensated by the state salary pay scale, the commission cannot compete with salaries offered by the industry.

Number 1823

CHAIR OGAN informed members that the procedure regarding a confirmation is that the committee doesn't make a recommendation per se, but just notifies the Speaker of the House that the confirmation has been heard. He thanked Ms. Heusser and asked her to contact him or the committee if there is anything they can do for the AOGCC. He expressed an interest in spending a day or two in the field during the interim, in order to see firsthand what the AOGCC does.

MS. HEUSSER responded that the AOGCC would welcome having Chair Ogan or any other Representative stop by and would gladly answer questions.

[There being no objection, the confirmation of Ms. Heusser to the AOGCC was advanced.]

CHAIR OGAN called an at-ease at 8:37 a.m. in order to hear the Overview Presentation by the Alaska Oil and Gas Conservation Commission, as well as the Oil and Gas Subcommittee Report. [For minutes on the overview and the subcommittee report, see the cover sheet for 8:37 a.m. this same date.]